

Message Text

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NSCE-00 USIE-00 INRE-00 SP-02 AID-05 EB-07 NSC-05

CIEP-02 SS-15 STR-04 OMB-01 CEA-01 PA-02 PRS-01

CIAE-00 COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06

LAB-04 SIL-01 AGR-10 OES-06 /129 W

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FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4866

INFO AMEMBASSY BONN

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DEPARTMENT PASS FRB AND LABOR

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD AUG 18-AUG.24

SUMMARY: WITH OVER 200 THOUSAND JOBLESS SCHOOL LEAVERS

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PUSHING THE UNEMPLOYMENT TOTAL ABOVE 1.5 MILLION AND A

SHARP RISE IN THE MONETARY AGGREGATES, STERLING CAME UNDER PRESSURE AFTER WEEKS OF RELATIVE CALM. CONTRIBUTING TO THE UNCERTAINTY OVER THE STRENGTH OF THE RECOVERY IS AN INCREASINGLY SEVERE DROUGHT WHOSE IMPACT ON INDUSTRIAL PRODUCTION WILL GROW IF WATER SUPPLIES ARE NOT REPLENISHED OVER THE COMING MONTHS. WAGES AND EARNINGS WERE THE ONLY INDICATORS TO FOLLOW A PREDICTABLE PATTERN AS THE FIRST YEAR ON WAGE RESTRAINT PRODUCED THE DESIRED RESULTS. END SUMMARY.

1. UNEMPLOYMENT. WHILE THE UNADJUSTED JOBLESS FIGURE ROSE BY 38,500 TO 1.502 MILLION, A POST-WAR RECORD, THE AUGUST UNEMPLOYMENT FIGURES CONTAINED SOME ENCOURAGING ELEMENTS. AFTER SEASONAL ADJUSTMENT AND EXCLUSIVE OF SCHOOL LEAVERS AND ADULT STUDENTS, THE AUGUST RISE AMOUNTED TO 15,300 BRINGING THE NUMBER OF WHOLLY UNEMPLOYED TO 1.309 MILLION (5.6 PERCENT) COMPARED WITH 1.294 MILLION IN JULY. THIS RISE IS WELL BELOW THE 38,700 INCREASE IN JULY AND INDICATES A RETURN TO THE LEVELLING OFF OF UNEMPLOYMENT WHICH CHARACTERIZED THE MARCH THROUGH JUNE PERIOD WHEN THE AVERAGE MONTHLY INCREASE WAS ABOUT 6,000.

THE AUGUST FIGURES SHOULD BE SEEN IN THE LIGHT OF THE BEHAVIOR OF TWO OTHER LABOR MARKET INDICATORS: THE NUMBER OF WORKERS ON REDUCED SCHEDULES, AND THE NUMBER OF REPORTED JOB VACANCIES. THE NUMBER OF WORKERS ON REDUCED SCHEDULES DECLINED TO 30,000 IN AUGUST AFTER HAVING AVERAGED 140,000 DURING THE FIRST QUARTER AND ABOUT 100,000 DURING THE SECOND. JOB VACANCIES INCREASED BY 10,000 IN AUGUST, THE LARGEST INCREASE IN OVER TWO YEARS, AND THE SEVENTH CONSECUTIVE MONTHLY INCREASE IN THIS INDICATOR. THERE IS NOW SOME EVIDENCE THAT A LARGE PART OF THE INCREASE IN UNEMPLOYMENT OVER THE PAST THREE MONTHS CAN BE EXPLAINED BY THE FACT THAT TWO OF EVERY THREE JOBS LOST DURING THE PAST THREE MONTHS WERE HELD BY WOMEN. THESE JOBS ARE NOW SUBJECT TO EQUAL PAY LEGISLATION. SOME EMPLOYERS, UNWILLING TO PAY EQUAL WAGES TO MEN AND WOMEN, HAVE ELIMINATED THEIR PROBLEM BY CUTTING DOWN ON FEMALE EMPLOYMENT.

COMBINING THESE VARIOUS ELEMENTS IT SEEMS LIKELY THAT UNCLASSIFIED

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UNEMPLOYMENT TOTALS WILL BE LITTLE CHANGED OVER THE REST OF 1976. SEGMENTS OF THE UNEMPLOYED, SCHOOL LEAVERS IN PARTICULAR, WILL CONTINUE TO BE THE FOCUS OF GOVERNMENT TRAINING PROGRAMS. FOR EXAMPLE, HMG WILL SHORTLY ANNOUNCE FURTHER DETAILS OF THE WORK EXPERIENCE PROGRAM RECENTLY PUT IN MOTION BY THE CHANCELLOR DESIGNED TO EXPOSE SCHOOL LEAVERS TO A WORK EXPERIENCE (AT GOVERNMENT EXPENSE) IN INDUSTRY FOR A LIMITED PERIOD SEE SEPTTEL FOR

ADDITIONAL DETAILS.

2. MONEY SUPPLY. THE MONETARY AGGREGATES ROSE SHARPLY

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DURING THE MONTH ENDING JULY 21. ON A SEASONALLY ADJUST-
ED BASIS, M1 GREW BY 540 MILLION POUNDS (3.1 PERCENT)

WHILE M3 ROSE 845 MILLION POUNDS (2.1 PERCENT).OVER THE PAST 12 MONTHS M1 AND M3 HAVE GROWN BY 14.2 AND 10.9 PERCENT RESPECTIVELY. ABOUT A THIRD OF THE INCREASE IN M1 WAS DUE TO A 140 MILLION POUND INCREASE IN INTEREST BEARING SIGHT DEPOSITS. THIS IS CALL AND OVERNIGHT UNCLASSIFIED

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MONEY WHICH HAS BEHAVED DIFFERENTLY FROM NON-INTEREST BEARING DEPOSITS AND ACCORDING TO ONE RESPECTED MONEY

MOST OF THE INCREASE WAS DUE LARGELY TO A 709 MILLION POUNDS (S.A.) RISE IN BANK LENDING TO THE PRIVATE SECTOR. THIS BRINGS TOTAL LENDING TO THE PRIVATE SECTOR SINCE APRIL TO 1.6 BILLION POUNDS (S.A.) AND PROVIDES STRONG EVIDENCE THAT INDUSTRY HAS BEGUN TO BORROW TO FINANCE INCREASED WORKING CAPITAL REQUIREMENTS. THE OTHER MAJOR ELEMENT IN THE RISE IN M3 WAS AN INCREASE OF 242 MILLION POUNDS(SA) IN FOREIGN CURRENCY DEPOSITS. THIS WAS CHARACTERIZED BY THE BANK OF ENGLAND AS AN "ERRATICALLY LARGE INCREASE."

REACTION TO THE MONEY SUPPLY FIGURES WAS MIXED. ONE VIEW SAW THE RISE IN PRIVATE SECTOR BORROWING AS A HARBINGER OF CONTINUING ECONOMIC RECOVERY. ANOTHER WIDELY HELD VIEW WAS THAT THE FIGURES PLACED THE CHANCELLOR'S 12 PERCENT M3 FORECAST IN JEOPARDY. PROPONENTS OF THE LATTER VIEW POINT TO THE FACT THAT THE MONETARY AGGREGATES GREW RAPIDLY IN JULY DESPITE THE ABNORMALLY LOW CENTRAL GOVERNMENT BORROWING REQUIREMENT. THEY BELIEVE THAT LARGE GOVERNMENT BORROWING LATER IN THE YEAR COMBINED WITH A RISING PRIVATE SECTOR DEMAND FOR FINANCE WILL EITHER FORCE THE RATE OF M3 GROWTH TO UNACCEPTABLE LEVELS OR COMPEL HMG TO INTRODUCE SOME FORM OF CREDIT RATIONING.

3. WAGES AND EARNINGS. THE INDEX OF BASIC HOURLY WAGES (JULY 31. 1972 EQUALS 100) CONTINUES TO REFLECT THE SUCCESSFUL FIRST STAGE OF WAGE RESTRAINT. IN JULY, THE INDEX STOOD AT 217.2, A RISE OF 0.9 PERCENT FROM THE REVISED JUNE LEVEL OF 215.2. IN THE YEAR SINCE THE 6 POUND A WEEK PAY POLICY HAS BEEN IN FORCE, THE BASIC WAGE INDEX HAS RISEN BY 17 5 PERCENT. CONSIDERABLY MORE THAN THE 11 PERCENT AVERAGE INCREASE REPRESENTED BY 6 POUNDS. HOWEVER, THIS IS IN LINE WITH THE POLICY SINCE ABOUT TWO-THIRDS OF THE INDEX CONSISTS OF MANUAL WORKERS WHOSE WAGES ARE BETWEEN 50 AND 60 PERCENT OF THE NATIONAL AVERAGE.

THE INDEX OF AVERAGE EARNINGS (1970 EQUALS 100) PUBLISHED WITH A LAG OF ONE MONTH. DECLINED BY 0.8 PERCENT IN JUNE. IT STOOD AT 258.0 COMPARED WITH 260.0 IN MAY. UNCLASSIFIED

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THE DECLINE IS LINKED WITH THE SHARP DROP IN INDUSTRIAL PRODUCTION IN JUNE WHEN MANY FEWER HOURS WERE WORKED. THE EARNINGS INDEX NOW STANDS 12.5 PERCENT ABOVE JUNE 1975 AND ITS RISE SEEMS CERTAIN TO BE IN THE 13 PERCENT RANGE FOR THE FIRST YEAR OF THE PAY POLICY. AGAIN THIS FIGURE IS IN EXCESS OF THE 10-11 PERCENT EARNINGS RISE ANTICIPATED WHEN THE POLICY WAS INTRODUCED. THE DIFFERENCE IS ACCOUNTED FOR BY THE INTRODUCTION OF EQUAL PAY FOR WOMEN AND THE COMPLETION OF STAGED PAY INCREASES AGREED BEFORE AUGUST 1975. WITH THE 4.5 PERCENT SECOND STAGE PAY POLICY NOW IN PLACE BOTH INDICES SHOULD DECLINE STEADILY OVER THE COMING MONTHS.

4. DROUGHT. WITH LONGER TERM METEOROLOGICAL FORECASTS POINTING TO A CONTINUATION OF WARM DRY WEATHER, THE GOVERNMENT IS STEPPING UP EFFORTS TO STAVE OFF ANOTHER INDUSTRIAL CRISIS. HOWEVER, IT IS ALREADY TOO LATE FOR CERTAIN SECTIONS OF THE COUNTRY WHERE RESERVOIRS ARE RAPIDLY DRYING UP. IN SOUTH WALES WHERE DOMESTIC CONSUMERS ALREADY HAVE THEIR TAPS SHUT OFF 17 HOURS A DAY, INDUSTRY IS NOW BEING RATIONED. EFFECTIVE SEPTEMBER 1, WATER SUPPLIES TO INDUSTRY IN THIS REGION WILL BE HALVED. INDUSTRY AND UNION LEADERS HAVE ALREADY DECLARED THAT SUCH ACTION WILL LEAD TO A THREE, OR EVEN POSSIBLY, A TWO-DAY WORK WEEK IN THE AFFECTED AREAS. SAVINGS OF WATER BY THE PUBLIC HAVE BEEN USEFUL BUT THE NATIONAL WATER COUNCIL STATES THAT WITH THE CONTINUED LACK OF RAIN, CONSERVATION MEASURES ALONE ARE NOT ENOUGH. ALTERNATIVE SOURCES OF SUPPLY, THROUGH IMPORT FROM LESS AFFECTED AREAS, ARE BEING EXPLORED. IT APPEARS OBVIOUS THAT HOUSEHOLDS WILL BE THE MAIN TARGET OF GENERAL CONSERVATION PROGRAMS WITH EVERY EFFORT BEING MADE TO MAINTAIN SUPPLIES TO INDUSTRY. SPECIAL EFFORTS WILL BE MADE TO MAINTAIN SUPPLIES TO LABOR INTENSIVE INDUSTRIES' PARTICULARLY IN AREAS OF HIGH UNEMPLOYMENT, AND TO KEY EXPORT INDUSTRIES. NONETHELESS, EVEN IF RAINFALL DURING

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WINTER MONTHS IS AT NORMAL LEVELS, RESERVOIRS AND RIVERS
WILL REMAIN LOW. WHILE THE DROUGHT CANNOT YET BE DE-
SCRIBED AS CRITICAL, IT ADDS AN UNWELCOMEBURDEN ON THE
GOVERNMENT'S ECONOMIC RECOVERY PROGRAMS.

5. EXCHANGE RATE AND GOLD

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DATE	EXCHANGE RATE (\$)	DEPRECIATION (PERCENT)	GOLD
8/18	1.7835	39.1	\$L08-5/8
8/19	1.7815	39.2	\$109-3/8
8/20	1.7815	39.1	\$108-7/8
8/23	1.7825	39.2	\$106.1/8

8/24 1.7760 39 5 \$104-5/8
 CHANGE 8/17-8/24 DN 0.0105 WIDENED 0.4 DN \$ 7.25

6. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/18	1.13	3.33	6.35
8/19	1.10	3.27	6.27
8/20	1.05	3.25	6.32
8/23	1.17	3.25	6.28
8/24	1.20	3.32	6.52

CHANGE 8/17-8/24 UP 0.07 UP 0.11 UP 0.15
 (ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/18	5-1/8	5-1/2	6-1/8
8/19	5-3/8	5-5/8	6-1/8
8/20	5-1/2	5-3/4	6-1/8
8/23	5-3/8	5-3/4	6-1/4
8/24	5-1/4	5-3/4	6-1/4

CHANGE 8/17-8/24 DN 1/8 UNCHANGED UP 1/8

8. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST RATE DIFFERENTIAL.

DATE	
8/18	5-9/16
8/19	5-7/16
8/20	5-5/16
8/23	5-13/32
8/24	5-1/2

9. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/18	10-25/32	11-3/32	11.3/8
8/19	10-25/32	11-1/16	11-11/32

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8/20	10-13/16	11-1/16	11-11/32
8/23	10-27/32	11-1/8	11-7/16
8/24	10-13/16	11-1/4	11-5/8

CHANGE 8/17-8/24 DN L/16 UP 3/16 UP 7/32

10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, AUGUST 20. THE TREASURY BILL RATE FELL BY 0.0097 PERCENT TO 10.8672 PERCENT. THE 500 MILLION POUNDS OF BILLS OFFERED DREW BIDS OF 903 MILLION POUNDS.

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